

STATE OF VERMONT
PUBLIC SERVICE BOARD

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Joint Petition of Vermont Electric :
Cooperative, Inc. and Citizens : PSB Docket No. 6850
Communications Company For :
Transfer of Assets :
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Joint Petition Of Vermont Electric : PSB Docket No. 6853
Cooperative, Inc. and Citizens :
Communications Company For :
Transfer and Assignment of :
Hydro-Québec Contracts :
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MEMORANDUM OF UNDERSTANDING AMONG VERMONT ELECTRIC
COOPERATIVE, INC. AND THE VERMONT DEPARTMENT OF PUBLIC SERVICE

With respect to the above referenced petitions, Vermont Electric Cooperative, Inc. and the Vermont Department of Public Service stipulate as follows:

RECITALS

On April 15, 2003, Vermont Electric Cooperative, Inc. ("VEC") and Citizens Communications Company d/b/a Citizens Energy Services ("Citizens" or "VED") entered into a Purchase and Sale Agreement ("Agreement"), pursuant to which VEC will acquire, subject to the exclusions referred to in the Agreement, substantially all of the assets of VED consisting primarily of VED's distribution assets, a portion of its transmission assets, as well as other intangible assets (the "Assets").

On May 7, 2003, VEC and Citizens¹ filed joint petitions seeking Public Service Board ("PSB" or "Board") approval of the transactions contemplated in the Agreement. Prefiled testimony was filed on behalf of the Citizens on June 2, 2003 and on behalf of VEC on June 4,

¹ VEC and Citizens are referred to jointly herein as the "Petitioners."

2003. On August 20, 2003, VEC filed a Transition/Integration Plan for the consolidation of VEC and Citizens. On September 12, 2003, VEC filed a Consolidation Plan for the Transmission & Distribution Facilities of VEC and Citizens. The Department of Public Service (the "Department" or "DPS") has engaged in extensive discovery with respect to the petitions and other documents filed by the Petitioners.

The Petitioners and the Department have engaged in discussion and review with respect to the testimony and filings in this case. As a result, the Parties to this MOU agree that the transactions contemplated in the Agreement are in the general good of the state and, in accordance with the several agreements contained in this Memorandum of Understanding and a separate Memorandum of Understanding between the Department and Citizens, further agree to jointly request that the Public Service Board expeditiously approve the Petitions.

AGREEMENT

1. In this document, the following definitions will apply:
 - a. "Board" or PSB means the Public Service Board.
 - b. "Citizens" means Citizens Communications Company d/b/a Citizens Energy Services.
 - c. "Closing" means the date on which Citizens transfers, to VEC, title to the Assets.
 - d. "Covenants" means the covenants contained in VEC's various bond indentures and loan agreements and listed on Attachment 1.
 - e. "DPS" or the "Department" means the Vermont Department of Public Service.
 - g. "Parties" means VEC and the Department unless otherwise stated.
 - h. "Petitioners" means Citizens and VEC.

- i. “PSA” means the Purchase and Sale Agreement between Citizens and VEC dated April 15, 2003 and filed by the Petitioners in this docket.
 - j. “MOU” means this Memorandum of Understanding among VEC and the Department.
 - k. “VED” means the Vermont Electric Division of Citizens.
 - l. “VEC” means Vermont Electric Cooperative, Inc.
2. Within 180 days after Closing, VEC shall file with the PSB and DPS copies of all acquisition accounting entries including without limitation the \$2.9 million VED cash adjustment made related to the VEC’s acquisition of Citizens’ Assets and VEC shall provide the proposed entries to the DPS not later than when they are provided to VEC’s outside auditors.
3. VEC agrees that not later than 18 months following the date of Closing, it shall make a filing with the PSB and Department based on a complete cost-of-service study for the consolidated service territory using the most recent 12 month period for which financial information is reasonably available as a test year and showing adjustments for known and measurable changes. VEC agrees to include in the cost of service filing all billing determinants for the test year. If the adjusted test year revenue requirement shown on the cost of service study is equal to or less than the revenues that would have been generated had Citizens' current rates been in effect throughout the consolidated service territory, VEC shall reduce rates and shall implement one consistent set of rates for the entire consolidated service territory. Under no circumstances shall such filing result in higher revenues to VEC unless a failure to seek higher revenues would result in a violation of the Covenants.
4. If the adjusted test year revenue requirement shown on the cost of service study referred to in Paragraph [#] above is greater than the revenues that would have been generated

had Citizens' current rates been in effect throughout the consolidated service territory and is not greater as a result of increases in the cost of power that could not have been avoided or mitigated by VEC - VEC agrees:

(a) that the compensation of the Chief Executive Officer shall be reduced by 10%, said reduction to be cumulative of any reduction provided for in any other paragraph of this MOU;

(b) that compensation of the Chief Executive Officer shall not be thereafter increased, regardless of changes in personnel or other factors, until VEC's rates are reduced to reflect revenue requirements that are lower than they would have been had Citizens' current rates been in effect throughout the consolidated service territory;

(c) to file with the DPS and PSB, within 30 days after the Cost of Service filing, a proposal describing cost reductions that will be implemented to reach the goal of reducing VEC's rates, and

(d) to publish in VEC's regular newsletter to its members a notice reasonably drafted by the DPS informing VEC's members that it has failed to achieve a rate reduction to which it agreed in connection with the purchase of VED.

5. VEC shall make a filing, no later than 39 months following the date of Closing, showing whether its performance over the 36 months following the Closing has met its financial projections filed in this docket. If the projections have not been met, VEC's filing shall also include a rate and tariff design plan designed to achieve rate reductions for all customers within the following 12 months, consistent with the financial projections filed in this Docket 6850.

6. VEC agrees that, for a period of five (5) years following the date of the Closing, it will not file for a general rate increase unless: (1) such increase is filed pursuant to 20 V.S.A. §

226(a) to reflect an emergency and is necessary for the purpose of providing adequate and efficient service or for the preservation of the property of VEC devoted to public use or (2) failure to seek a rate increase would result in a violation of the Covenants. In the event that VEC seeks a general rate increase within such period - and the rate increase is not caused by an emergency that VEC could not have avoided or mitigated, new federal or state regulatory mandates, or by increases in the cost of power that could not have been avoided or mitigated by VEC - VEC agrees to terminate its Chief Executive Officer and that the compensation for the VEC Board of Directors shall be reduced by 10% for the remainder of the five year period in which the increase is in effect. VEC also agrees to publish in VEC's regular newsletter to its members a notice reasonably drafted by the DPS informing VEC's members that it has failed to achieve rate stabilization to which it agreed in connection with the purchase of VED.

7. DPS and VEC shall negotiate a Management Incentive Plan designed to assist VEC in achieving targeted financial results for submission to the Public Service Board within six (6) months of Closing.

8. VEC agrees to use its best efforts to negotiate the transfer of transmission assets from VEC to the Village of Enosburg Falls Water & Light Department, as described in W. Steve Litkovitz's prefiled testimony. VEC agrees that any such agreement with the Village of Enosburg Falls Water & Light Department to complete the transfer shall be completed at the earliest reasonably practicable time following the Closing, and filed with the Department. In the event that no agreement is reached by a date five months following the Closing, VEC and, if it chooses, the Village of Enosburg, shall file with the DPS a written description of the issues remaining and the positions of each party on such issues.

9. VEC agrees to use its best efforts to negotiate the transfer of transmission assets from VEC to the Barton Village, Inc. Electric Department and Village of Orleans Electric Department (the "Villages"), as described in W. Steve Litkovitz's prefiled testimony. VEC agrees that any such agreement with the Villages to complete the transfer shall be completed at the earliest reasonably practicable time following the Closing, and filed with the Department. In the event that no agreement is reached by a date five months following the Closing, VEC and, if it chooses, the Villages, shall file with the DPS a written description of the issues remaining and the positions of each party on such issues.

10. Subject to timely receipt of all required permits, regulatory approvals and the availability of financing on terms reasonably acceptable to VEC, VEC agrees to use its best efforts to complete the system upgrade project described as "Scenario 6 - Integrate Irasburg, Burton Hill and East Hill" as described in System Integration Plan for the Vermont Electric Cooperative, Inc. Acquisition of Citizen's Energy Services by E/PRO Engineering & Environmental Consulting, LLC and attached hereto as Attachment 2 within two years of the Closing. No later than three months after the Closing, VEC shall provide the DPS with a list of regulatory approvals and permits required for the "Scenario 6" project, including a legal analysis supporting VEC's determination as to whether approval pursuant to 30 V.S.A. § 248 is required. At that time VEC shall also state when it anticipates filing for each required permit and approval, as well as its expectations regarding financing for the Scenario 6 project. VEC acknowledges that it is responsible for taking all reasonable steps to ensure timely issuance of required permits and approvals.

11. Subject to timely receipt of all required permits and regulatory approvals, VEC agrees to complete the system upgrade project described as "Scenario 8 & 9 - Viable options for

the continued operation of the 14.4 kV portion of the VEC Irasburg system” as described in System Integration Plan for the Vermont Electric Cooperative, Inc. Acquisition of Citizen’s Energy Services by E/PRO Engineering & Environmental Consulting, LLC s and attached hereto as Attachment 3 within two years Closing. No later than three months after the Closing, VEC shall provide the DPS with a list of regulatory approvals and permits required for the “Scenario 8&9” project, including a legal analysis supporting VEC’s determination as to whether approval pursuant to 30 V.S.A. § 248 is required. At that time VEC shall also state when it anticipates filing for each required permit and approval. VEC acknowledges that it is responsible for taking all reasonable steps to ensure timely issuance of required permits and approvals.

12. VEC shall report to the Department on its plans for upgrades in the area presently served by Citizens Jay substation, VEC’s Jay substation, and Citizens North Troy substation no later than six months following the Closing.

13. VEC shall use its best efforts to hire at least one additional planning engineer no later than one year following the date of the Closing.

14. VEC shall retain a consultant to develop a vegetative management plan for the combined entity. Such plan shall be completed and submitted to the Board and the Department no later than one year following the date of the Closing. The vegetative management plan, at a minimum, shall identify the resources that would be required for VEC to attain a five-year trimming cycle for transmission rights-of-way and an eight-year cycle for distribution rights-of-way. For the first year following the date of the closing between Citizens and VEC, a minimum of \$1,000,000 shall be provided for the vegetative management program.

15. VEC shall review its present tree trimming policies for the appropriate width of right-of-way to be cleared and the minimum acceptable width for new right-of-way easements.

Emphasis shall be placed on transmission lines and three-phase distribution lines. The conclusions and recommendations from this review shall be submitted to the Board and Department no later than one year following the date of the closing between Citizens and VEC.

16. DPS and VEC shall negotiate a successor Service Quality and Reliability Plan (SQRP) that is substantially similar in its metrics to the plans approved by the Public Service Board for Green Mountain Power and Central Vermont Public Service. The plan shall include a system of financial consequences that the VEC and the DPS agree is appropriate to a cooperative utility. The parties agree to submit the plan to the Public Service Board for approval no later than March 30, 2004. If the parties are unable to agree, VEC shall petition the Board no later than March 30, 2004, for approval of its proposal.

17. VEC shall consolidate its call centers such that all customer service telephone answering is being provided from one physical location no later than December 31, 2004 or upon the consolidation of its operational systems, whichever is earlier.

18. VEC shall initiate annually the following training for customer service personnel:

(a) CAPI training and discussion session on DPS application of Public Service Board Rules 3.200, 3.300, and 3.400.

(b) Participation in fuel assistance training provided annually by the Department of Prevention Assistance, Transition and Health Access (PATH) and/or the Community Action Agencies.

(c) Training by the Community Action Agencies service territory on low-income issues.

19. VEC agrees to abide by the DPS analysis of Public Service Board rules contained in Attachment 4. If VEC disagrees with any portion of the analysis, it shall attempt to negotiate

the disagreement with DPS. If the parties cannot agree, VEC agrees to petition the Public Service Board for resolution of the dispute.

20. VEC shall participate fully in the Warmth program, administered by the state's Community Action Agencies.

21. VEC shall adopt the existing billing format of Citizens for all its customers no later than December 31, 2004. At least six weeks prior to this transition, VEC shall seek DPS agreement with the manner in which past due amounts, amounts subject to payment arrangement, automatic bank withdrawal and budget billing amounts are displayed and explained on the bill. If the parties are unable to agree, VEC shall submit the dispute to the Public Service Board for resolution, in which case VEC agrees to adopt the billing format as decided by the Public Service Board within a reasonable time or such time as may be required by the Public Service Board.

22. VEC shall, by April 1, 2004, cease offering the service of credit card payment in any manner that causes all ratepayers to pay the associated service charge and/or bank fees. Further, VEC shall not offer electronic billing and payment options to customers in any manner that causes all ratepayers to pay the associated service charges and/or bank fees.

23. VEC agrees to notify the Department before undertaking changes to customer service, billing and payment policies and systems.

24. VEC shall, no later than 18 months after Closing, conduct a thorough cost-benefit analysis of contracting with another utility for provision of appropriate services in some or all of VEC's territory.

25. VEC and DPS shall jointly review VEC's budget billing practices by July 1, 2004, or 3 months after the Closing, whichever is later, and negotiate any changes the DPS may recommend.

26. VEC agrees to adhere to provisions of the agreement between Citizens and the Champlain Valley Office of Economic Opportunity dated May, 1995, attached as Attachment 5 except as DPS, CVOEO and VEC shall mutually agree to modify the terms.

27. No former Citizens employees shall manage or supervise customer service or collections activities of VEC for at least one year from the Closing.

28. VEC shall consult with DPS before implementation of menu structures and scripts for the integrated voice response system and/or automated attendant telephone system(s).

29. VEC shall initiate a meeting or discussion no later than April 1, 2004, or 2 months after the Closing, whichever is later between DPS, CVOEO and VEC to determine whether the practice of "informational disconnection notices" can be eliminated without interfering with consumers' ability to get fuel assistance. VEC shall not issue disconnection notices except for instances in which the company can and intends to disconnect except as CVOEO, VEC and DPS shall agree such notices are needed for consumers to apply for fuel assistance.

30. VEC shall conduct a systematic workload analysis of the call center to optimize its operation no later than January 1, 2005, or 12 months after the Closing, whichever is later. VEC agrees to consult with DPS on the results of the analysis and the steps, if any, it intends to take in light of the analysis.

31. VEC shall conduct a thorough cost-benefit analysis by one year after Closing of options for reducing the cost of serving its southern territory, including at least the options of

contracting with other utilities for provision of services, and transferring the territory to another utility.

32. The parties have made compromises on specific issues to reach this MOU. The Parties agree that this MOU relates only to these Parties and should not be construed by any party or tribunal as having precedential or any other impact on any other proceedings involving a different transaction, different subject matter, other utilities, or other parties. With respect to such proceedings, the Parties reserve the right to advocate positions that differ from those set forth in this MOU.

33. The parties agree that, should the Board fail to approve this MOU in its entirety, the Parties' agreements set forth herein shall terminate and the Parties shall have the right to file prefiled testimony on all issues in this docket and the Parties' agreements in this MOU shall not be construed by any party or tribunal as having precedential impact on any testimony or positions which may be advanced in these proceedings.

34. The Board shall have jurisdiction, following issuance of a certificate of consent to sale of the Assets by Citizens to VEC, to resolve any disputes arising under this MOU.

35. The Department shall have an opportunity to be heard on any filings made with the Board under this MOU.

36. Nothing in this MOU shall bind the DPS to take or refrain from taking any position on any issue not addressed herein, including any issue raised by any other party to this docket, or in any future docket.

37. The Parties recognize that Citizens has agreed to refund the sum of \$720,917 to its customers and desires to effectuate the refund by applying the refund amount as a credit to customer bills, as set forth in the MOU between the DPS and Citizens ("Citizens MOU"). VEC

agrees that, after Closing, it will implement the specific terms set forth in sections 3.c. and d. and 4. of the Citizens MOU in order to carry out the refund.

38. Based on the above agreements, the Parties agree and recommend THAT: the Board should issue a certificate of consent under 30 V.S.A. § 109 for the sale of Assets by Citizens to VEC with the specific conditions agreed upon above and finding THAT:

1. The Acquisition by VEC of the Assets, including the acquisition of a controlling interest in VED, will promote the public and general good of the state and that the requirements of 30 V.S.A. §§ 107, 229, 232 and 248 are satisfied;
2. The financing by VEC of the Acquisition will be consistent with the general good of the state and that the requirements of 30 V.S.A. § 108 are satisfied;
3. The sale of the Assets by Citizens contemplated in this Petition will promote the general good of the state and that the requirements of 30 V.S.A. § 109 are satisfied;
4. The ownership and operation by VEC of the public utility business within the service territories currently owned and operated by Citizens will promote the public good and is consistent with the general good of the state and that the requirements of 30 V.S.A. §§ 102, 231(a) and 249 are satisfied;

And THAT the Board should issue an Order:

1. Granting VEC a Certificate of Public Good to operate a public utility business within the consolidated service territory of VEC and Citizens;
2. Approving the Acquisition of the Assets;
3. Approving transfer to VEC of the Citizen HQ Contracts;
4. Approving in all respects the transactions required of VEC and Citizens by the Agreement;
5. Allowing VEC to adopt and republish in its own name Citizens' existing Schedule of Electric Rates, Rules and Regulations Governing Service, and related Policies, without change, for those members in the service territory currently served by Citizens; and
6. Granting such other relief as may be necessary to effectuate the transactions contemplated in the Petition.